

TAKUSHOKU UNIVERSITY

THE IMPLEMENTATION OF TREASURY SINGLE ACCOUNT IN INDONESIA

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BY

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To my parents, Jean and Rini

and my siblings, Bobby, Santi and Maria

The journey of a thousand miles begins with one step.

— Lao Tzu

CONTENTS

ILLUSTRATIONS	viii
ACKNOWLEDGEMENT	ix
ABBREVIATIONS	x
ABSTRACT	xii

CHAPTER 1 INTRODUCTION

1.1. Background of Study	1
1.2. Research Questions	2
1.3. Purpose of Study	3
1.4. Data Sources	4

CHAPTER 2 THEORETICAL REVIEW

2.1. Government Accounting	4
2.2. Cash Management Theory	5
2.3. Treasury Single Account	7
2.4. The Importance of Public Financial Management	14

CHAPTER 3 TREASURY SINGLE ACCOUNT IN INDONESIA

3.1. Cash Management in Indonesia	16
3.2. Treasury Single Account in Indonesia	18
3.2.1 Before The Implementation of Treasury Single Account	25
3.2.1.1 Cash Flow at KPPN KBL	26
3.2.1.2 Cash Flow at KPPN Non KBL	29
3.2.2 After The Implementation of Treasury Single Account	31

3.2.2.1 Mechanism of TSA Implementation in Treasury Office for Spending Account.....	32
3.2.2.2. Mechanism of TSA Implementation in Treasury Office for Revenue Account	33
3.3. Comparison Between Before and After the Implementation of Treasury Single Account	39
CHAPTER 4 TREASURY SINGLE ACCOUNT IMPLEMENTATION IN OTHER COUNTRIES	
4.1. France	43
4.1.1 Lesson for Indonesia from France	44
4.2. United Kingdom.....	45
4.2.1 Lesson for Indonesia from United Kingdom.....	47
4.3. Australia.....	47
4.3.1 Lesson for Indonesia from Australia	47
4.4. United States.....	48
4.4.1 Lesson for Indonesia from United States.....	49
4.5. Sweden	50
4.5.1 Lesson for Indonesia from Sweden	51
4.6. New Zealand.....	52
4.6.1 Lesson for Indonesia from New Zealand.....	52
4.7. Brazil	53
4.7.1 Lesson for Indonesia from Brazil	53
4.8. Georgia	54
4.8.1 Lesson for Indonesia from Georgia	55
4.9. Serbia.....	55
4.9.1 Lesson for Indonesia from Serbia.....	57

CHAPTER 5 CONCLUSION AND POLICY RECOMMENDATION

5.1. Conclusion	58
5.2. Policy Recommendation.....	60
REFERENCES.....	62

ILLUSTRATIONS

Figures

2.1. Building Block of an Effective Government Cash Management System	10
2.2. Typical STA Structure	12
3.1. The Development of Cash Management in Indonesia.....	18
3.2. Treasury Single Account in Indonesia.....	19
3.3. Cash Flow At KPPN (Treasury Office) KBI.....	29
3.4. Cash Flow at KPPN (Treasury Office) Non KBI.....	31
3.5. TSA Implementation in Treasury Office for Spending Account.....	32
3.6. TSA Implementation in Treasury Office for Revenue Account.....	34

Tables

3.1. Founding -Wildø Account	24
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ABBREVIATIONS

APBN Anggaran Pendapatan Belanja Negara
(State Budget)

BI Bank Indonesia
(Bank of Indonesia)

BI-RTGS Bank Indonesia-Real Time Gross Settlement

BUN Bendahara Umum Negara
(State General Treasurer)

BO I Bank Operasional I
(I Operational Bank)

BO II Bank Operasional II
(II Operational Bank)

BO III Bank Operasional III
(III Operational Bank)

BPK Badan Pemeriksa Keuangan
(The Audit Board of Republic Indonesia)

BPHTB Bea Perolehan Hak Tanah dan Bangunan
(Land and Building Acquisition Fee)

CKC Centraal Kantoor voor de Comptabiliteit
(State Cash Revenue And Spending Office)

KBN Kantor Bendahara Negara
(State Treasury Office)

KKN Kantor Kas Negara
(State Cash Office)

KPN Kantor Perbendaharaan Negara
(State Treasury Office)

KPKN Kantor Perbendaharaan dan Kas Negara
(State Cash and Treasury Office)

KPPN Kantor Pelayanan Perbendaharaan Negara
(State Treasury Service Office)

KBI Kantor Bank Indonesia
(The office of Bank of Indonesia)

LKPP Laporan Keuangan Pemerintah Pusat
(Central Government Financial Report)

PBB Pajak Bumi dan Bangunan
(Land and Building Tax)

RPK-BUN-P Rekening Pengeluaran Kuasa Bendahara Umum Negara Pusat
(Center State General Treasurer -Authorize Spending Account)

RKUN Rekening Kas Umum Negara
(State General Cash Account)

SG Sentral Giro
(Giro Central)

SGG Sentral Giro Gabungan
(Consolidation Giro Central)

SGGK Sentral Giro Gabungan Khusus
(Specific Consolidation Giro Central)

SKN-BI Sistem Kliring Nasional-Bank Indonesia
(National Clearing System-Bank Indonesia)

SP2D Surat Perintah Pencairan Dana
(Fund Disbursement Order Letter)

SPP Surat Permintaan Pembayaran
(Payment Request Letter)

SPM Surat Perintah Membayar
(Paying Order Letter)

TSA Treasury Single Account

ABSTRACT

Cash is the key element in determining operational policies in government. Poor cash management practices can not only lead to waste, but also inhibits the growth of a country's financial markets and may reduce the effectiveness of monetary policy.

Treasury management efforts undertaken by the government (Ministry of Finance) at the level of implementation by the Directorate General of Treasury has been progressing very dynamically. Implementation of Government Cash Management procedures began to be carried out in stages with the implementation Treasury Single Account (TSA) in 2007.

The implementation of the cash management in Indonesia is not referring entirely to the principles of good cash management. The implementation of Treasury Single Account is one way Indonesia has chosen to achieve better cash management. In the future hopefully cash management can be implemented properly. However, it is not easy to implement the Treasury Single Account because of the large number of entities involved including Directorate General of Treasury, Bank Indonesia, Commercial Bank and Post Office.

Implementation of cash management was mandated in Law No. 1 of 2004 on State Treasury made with the issuance of Government Regulation No. 39 of 2007 Regarding the Management of State / Local Funds. Government regulation No. 39 of 2007 established use a single account to manage the finances of the country / region. Governance and public finance administration system conducted by the General

Treasurer. State Commercial Banks have been appointed as a partner for spending and the placement of the state money.

Countries have limited financial resources, therefore it is very important to have good cash management to ensure that the government's cash management is operating effectively and efficiently so as to take advantage of optimal cash balance to generate revenue and maintain the availability of funds in the State Budget . Therefore, the application of a single account or a Treasury Single Account (TSA) coupled with good cash planning should be implemented.

With the implementation of the TSA, most of the government's cash balances can be consolidated into one account at the end of each working day. This will open up the possibility of the government to be able to perform better control over cash flow and prevent the possibility of abuse. In addition, the cash consolidation will allow the government to be able to manage cash well. In addition, in order to improve the utilization of state revenue. the cash can be made at Bank Indonesia or public banks and can earn interest or current accounts.

The different between before and after the implementation of TSA is the grouping of the mechanism of its process. For before, the grouping is based on the location of KPPN/Treasury Office with Bank Indonesia or not, while for other the grouping based on spending or revenue.

In the order to improve transparency and accountability of Treasury Single Account Implementation, Ministry of Finance must choose the operational bank through the tender process, awarding the tender to an operational bank that already gives the best service.

To achieve perfect implementation of the TSA still many challenges are to be faced. The challenges include the limited means of communication, good planning unclaimed cash and the need for coordination between the Ministry of Finance and Bank Indonesia. Besides, the implementation of TSA in cash management requires a change in mindset of every user in the areas of budget funds to finance state expenditures. Therefore the need for training to improve the quality of human resources in the country's financial management. If all of these challenges can be overcome it is expected that the implementation of TSA in Indonesia can work well.

From other countries such as France, United Kingdom, United States, Australia, Sweden, Georgia and Serbia, Indonesia can learn many things such as the used of commercial banks, the use of T-bills, the importance of information systems, and the participation of security funds in cash management.

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Cash is the key element in determining operational policies in government. Poor cash management practices can not only lead to waste, but also inhibits the growth of a country's financial markets and may reduce the effectiveness of monetary policy. In achieving the goal of effective government cash management, government must have three functional building blocks, namely: management of cash receipts and government payments, accurate cash flow forecasting ability accurate, and cash balance management.¹

Treasury management efforts undertaken by the government (Ministry of Finance) at the level of implementation by the Directorate General of Treasury has been progressing very dynamically. Implementation of Government Cash Management procedures began to be carried out in stages with the implementation Treasury Single Account (TSA) in 2007².

The goal of TSA implementation in to improve government efficiency because there are no longer unused cash deposits in commercial banks, but rather all balances are consolidated in one account of the State Treasury managed by Bank Indonesia.

¹ Mu (2006), p.6

²Based on the news that BRI cooperated with Ministry of Finance in implementing Treasury single account in Indonesia see <http://www.bumn.go.id/16189/publikasi/berita/bri-perkuat-treasury-single-account/> accessed on 3 May 2013

Ministry of Finance has the role to manage the state finances in a professional, transparent and responsible manner to achieve the prosperity of the people. One way to achieve these goals is the implementation of treasury cash management and expenditure financial planning.

It is very important that government protects its financial resources from mismanagement using the application of cash management.³ The possibility of misuse of public money can be reduced, and good cash management, can also lead to the improvement of services to the community.

Financial professionals have brought fresh air by applying business principles in management of state finances. The practice to apply business principles by professionals is an important part of management based on the value of money. Countries during this period sometime forget that money has a value associated with time. Normally, the longer the money is saved it will depreciate or decline in purchasing power. Thus, money management requires careful planning. In the management of state finances, the existence idle money (idle cash) and not be considered and the deadline for the use of money can be controlled by the state, known as the cash float.

1.2 Research Question

This research aims to obtain a general understanding of the term of Treasury Single Account and its implementation in Indonesia and other countries. It will be conducted to answer following question :

³Mu (2006), p. 22

1. How did Indonesia implement Treasury Single Account ?
2. What Indonesia can learn from other countries ?

1.3 Purpose of Study

Cash Management is very important in Indonesia and many challenges will occur in implementing Treasury Single Account. By learning from other countries, it is hoped that Indonesia will learn valuable lessons in implement Treasury Single Account in Indonesia.

1.4 Data Sources

The main sources of information for this study are books, journals, articles from the internet related to Cash Management and Treasury Single Account. To support the analysis, I use data collected from some institutions like Directorate General Treasury, Ministry of Finance and The Audit Board of Republic Indonesia.

CHAPTER 2

THEORETICAL REVIEW

2.1 Government Accounting

Government accounting as part of accounting science can be implemented by various government institutions, both local government and central government. The implementation will be different according to the characteristic of government itself. As a basic function, government accounting have function to administers and reports the realization of budget execution and sometimes is called budget accounting. Government accounting covers recording activities, classification activities, and transaction report activities as one part of the other unit and the intrepetation of these activites. Government accounting itselfis the process of recording, analyzing, classifying, summarizing communicating and interpreting financial information about government in aggregate and in detail reflecting transactions and other economic events involving the receipt, spending, transfer, usability and disposition of assets and liabilities.

In the broad view, accounting itself can defined as applied science and recording science that is continuously conducted according to certain systemto process and analyze records that can be recorded as financial liabilities to the institution⁴. Accounting based on function and process.⁵Accounting is a skill to record, classify, and summarize financial transactions carried out by an institution or company which reports the results in financial statements.

⁴Gade (2005), p.35

⁵Baswir (2000), p.39

2.2 Cash Management Theory

Cash Management as simple way can be definite as cash sought to be retained as long as possible to being employ that can be generate the revenue. In handling cash outlay, there are two mechanisms.⁶ First, slowing down payment require a that the institution may slow down the payment or pay at the deadline time. However, this mechanism can be costly because the institution can lose payment discount, if they pay before the deadline. The other mechanism is Controlling Disbursement (zero-balance account and controled disbursement Account), spending control by using zero-balance account, by creating major account, that will serve sub accounts which are maintain with a minimum balance. Controlling disbursement accounts by sending money to a bank account that covers expenses based on the anticipated results, cash expenditure can be delivered based on the predictions made earlier.

Some business management principles, there are some things that can be applied in the management of state finances. Principles of cash management in the business world include:

1. Speed up the withdrawal of cash receipts
2. Implement careful planning of large expenditures
3. Pay timely expenditure
4. Make use of the money held but not used (idle cash) to get the results
5. Reduce the build up of stocks

⁶Ross et al (2006), p.49

Opinions related to cash management according to Herma R de Zoysa⁷ are :

It is necessary to minimize the interval between the time when cash is received and the time it is available for carrying out expenditure programs. Collected revenues need to be processed promptly and made available for use.

It is appropriate to minimize the period of time when cash is received and when the money is used. Revenue income should be processed correctly and carefully and made in such a way as to help directly when used. Theories and practices of good cash management for corporations or in financial management of public funds or government indicates that money management should be truly optimal. In simple terms, the three mechanisms are:

- 1) Accelerate the withdrawal and cash receipts (cash inflows)
- 2) Control spending so much time in the organization's cash (cash outflows)
- 3) Invest the money that has not been used (idle cash)

According to Mao and Sarndal (2006), cash management is concerned with the amount of liquid resources to hold, the division of liquid resources between cash and marketable securities and the maturity structure of marketable securities portfolio.⁸ So to maximise capacity of cash management government decided to implement The Treasury Single Account in Indonesia.

⁷Premchand (1990), p.2

⁸Mao and Sarndal (2006), p.12

2.3 Treasury Single Account

Treasury Single Account is a unified structure of government bank accounts that gives a consolidated view of government cash resources.⁹ Based on the principle of unity of cash and the unity of treasury, a TSA is a bank account or a set of linked accounts through which the government transacts all its receipts and payments. The principle of unity follows from the fungibility of all cash irrespective of its end use. While it is necessary to distinguish individual cash transactions for control and reporting purposes, this purpose is achieved through the accounting system and not by holding/depositing cash in transaction specific bank accounts. This enables the treasury to delink management of cash from control at a transaction level.

A full-fledged TSA shares three essential features: First, the government banking arrangement should be unified, to enable ministry of finance (MoF) (or treasury) oversight of government cash flows in and out of these bank accounts. A unified structure of government bank accounts allows complete fungibility of all cash resources, including on a real-time basis if electronic banking is in place. The TSA structure can contain ledger sub-accounts in a single banking institution (not necessarily a central bank), and can accommodate external zerobalance accounts (ZBAs) in a number of commercial banks. Second, no other government agency operates bank accounts outside the oversight of the treasury. Options for accessing and operating the TSA are mainly dependent upon institutional structures and payment settlement systems (see the section on Transaction Processing under a TSA System). Third, the consolidation of government cash resources should be comprehensive and encompass all government cash resources, both budgetary and

⁹Mu (2006), p.22

extra-budgetary. This means that all public monies irrespective of whether the corresponding cash flows are subject to budgetary control or not (e.g., in the case of reserve funds, earmarked funds and other off-budget/extrabudgetary funds) should be brought under the control of the TSA. The cash balance in the TSA main account is maintained at a level sufficient to meet the daily operational requirements of the government (sometimes together with an optional contingency, or buffer/reserve to meet unexpected fiscal volatility).

The primary objective of a TSA is to ensure effective aggregate control over government cash balances. The consolidation of cash resources through a TSA arrangement facilitates government cash management by minimizing borrowing costs.¹⁰ In the absence of a TSA, idle balances are maintained in several bank accounts. Effective aggregate control of cash is also a key element in monetary and budget management. There are other objectives for setting up a TSA. They include: minimizing transaction costs during budget execution, notably by controlling the delay in the remittance of government revenues (both tax and nontax) by collecting banks, and making rapid payments of government expenses; facilitating reconciliation between banking and accounting data; efficient control and monitoring of funds allocated to various government agencies; and facilitating better coordination with the monetary policy implementation. After a brief overview of good cash management practices, more focuses on the interaction between cash and debt management, which takes the discussion into the interaction of cash management with monetary policy and financial market development. After discussing policy issues, institutional questions are considered: how should cash and

¹⁰Lienert (2009),p.3

debt managers coordinate, and how should their functions be coordinated with those of the central bank.¹¹

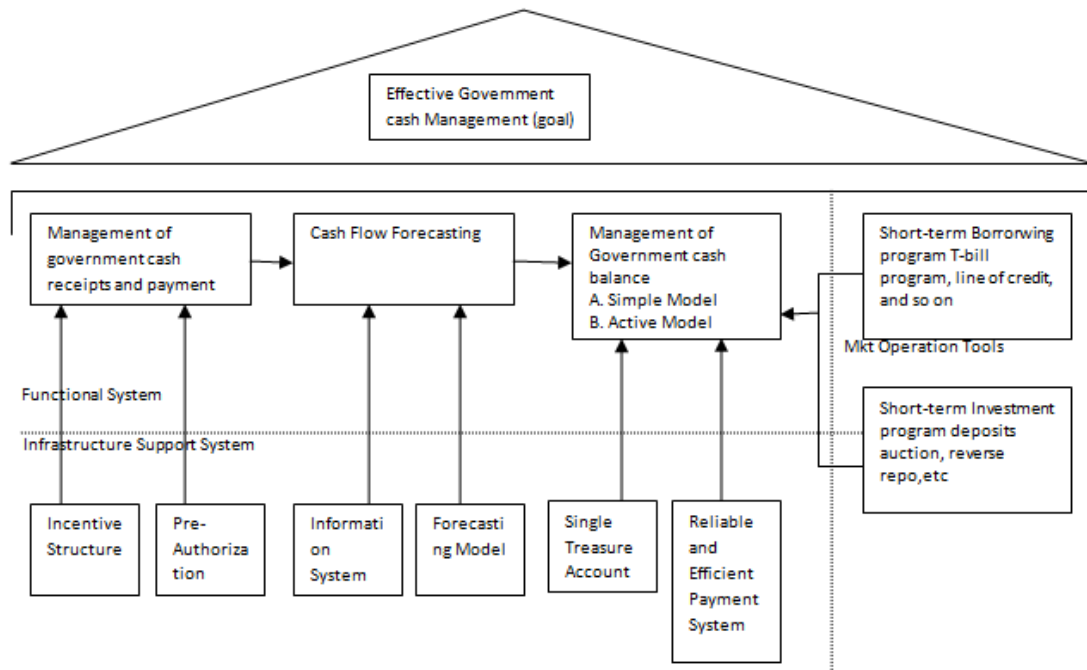
In real conditions, government cash management is an association between strategy and processes to manage short-term cash flow. The cash flow not only among government agencies, but also between the government and nongovernment sectors. The goals of effective cash management are to provide timely funding for the government's expenditures and debt services when needed, to avoid the need to keep substantial idle balances in the banking system, achieving better overall returns and alleviating and controlling various risks.

The difference between government cash management and budget planning execution mainly concerns public budget users compliance with budget and accounting rules and policies with the intent to minimize risk with cost effectiveness. The difference of government cash management and time management is the goal activities and time line. Debt management focuses more on long term debt while cash management focuses more on short term cash and cash balance. There are institutional ways to make government cash management more effective and secure but implementation differs from one country to another country¹² The building blocks of functions, referred to here as functional blocks or building blocks and have relationship with infrastructure, are common among effective practices. Effective cash management is described in Figure 2.1

¹¹ Mu (2006), p.6.

¹² Models for where cash management is hosted differ; within the state treasury, within the ministry of finance within the state treasury within the ministry of finance, within the state debt office, or within the central bank depending on such factors as culture, size of the economy skills and so on.

Figure 2.1 Building Blocks of an Effective Government Cash Management System



Source : Yibin Mu (2006;6)

In order to achieve an effective government cash management system, three functional building blocks are needed : management of government cash receipts and payments, cash flow forecasting and management of government cash balance.

The starting point of effective government is effective management of government cash receipts including fiscal revenues, debt issuance proceeds and payment such as fiscal expenditures and debt service expenses. The next step is cash flow management that includes effective management of government receipts and payments within the government and between the government and non government sectors.

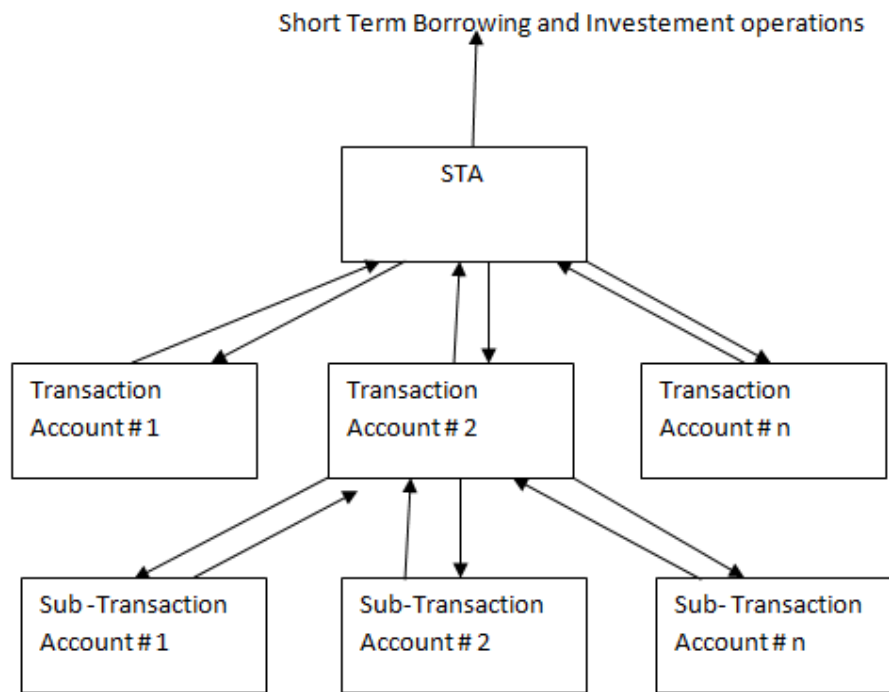
The second important functional block is an effective cash forecasting capacity. Management requires the capability to have reliable forecasts of daily cash

flows outside and inside the government, and also able to monitor actual cash that available.

The final functional block is effective management of the government cash balance that various government bodies cannot avoid. This includes investing in instruments outside the government. Government needs access to liquidity by payment and processing lags, forecasting uncertainties and cash flow volatility.

There are six arrangements needed to achieve the three functions of government cash management effectively. The first arrangement is Incentive structure. Incentive structure is very important in order to reduce idle cash by having the right incentives in place of effective cash management. The next arrangement is Pre-Authorization system, which can reduce the need for cash balance. The next arrangement is information system which is to collect and maintain all historical data, payments and receipts and all up-to-date future commitments for government payment and receipts. The next arrangement is a model for forecasting future payments and receipts coupled with an information system that will provide the necessary infrastructure for effective government cash flow forecasting. The final arrangement is Single Treasury Account, the centerpiece of the infrastructure needed for effective cash management. A consolidated treasury account structure allows for the netting and aggregation of balances and the preparation of consolidated cash flow forecasting. The highest account in this pyramid is the ministry of finance's account at the central bank. The principle of the government bank account arrangement is the linkage between government accounts to ensure that the cash balances in various government accounts at the end of a day are channeled to the main central account. Figure 2.2 shows the structure of typical STA.

Figure 2.2 Typical STA Structure



Source : Yibin Mu (2006;10)

If the government has poor government cash management, it will impact the capability to accurately foresee future cash inflows and outflows, which forces the government to build up a large cash balance that can meet obligations in a timely manner. In such circumstances, the government often fails to earn returns on its cash balance, which has been financed by borrowing at the market interest rate. On the other hand, effective government cash management will improve the transparency and predictability of debt management and promote benchmark development of the domestic debt market.

Mu Yibin covered all important parts about government cash management and discussed all aspects such as, that it is important to manage cash, because there will be an impact, which can be bad or can be good. As mention in this paper, I agree that there happen misunderstanding about the same about cash management with budget execution accounting control. It's important to diserve between cash management and budget execution. While in this paper mention about

implementation cash management in several developed country and including euro countries. It can compare with Indonesia situation. Indonesia has realized this situation with distinguish the function and has thus established by different division in Ministry of Finance. Cash Management is cared by Directorate General Treasury and budget exeution is done by Directorate General of Budget and another institution that use the money. However the rules must be followed so that cash management and budget execution can run smoothly because they have a relation each other.

Cash management in the government sector is still lacking to get attention, either by own government, academia and stake holders when compared to debt management. The impact of cash management is more short-term and can be improved when compared with debt management can have major impact on the economy in the long run.¹³

In Indonesia, the implementation of Treasury Single Account have the principal aim to create efficiency in the management of state funds with cash balances centralized mechanism in one account, according to Richard Allen and Daniel Tommasi, method that used internationally can be categorize in to two category. First, Treasury Single Account and centralized accounting controls. Request for payment are sent to the Treasury which controls them and plans their payment. The treasury manages the float of outstanding invoices. Second, in Passive Treasury Single Account, Payments are made directly by spending agencies , but through treasury single account. The Treasury, or the budget implementation plan, sets cash limits for the total amount of transaction, but the treasury does not control individual transaction. Indonesia uses the Passive Treasury Single Account, while payments are made directly by spending agencies and treasury prepares the cash, so the coordination between spending agencies and treasury is needed. The Treasury sets up the rule and spending agencies must follow the rule. That's why the socialisation about the rule to the spending agencies is needed. On other hand, spending agencies must have the human resources that understand the rules and follow the rules, because if they don't follow the rule will receive sanctions from Treasury.

¹³Williams (2004), p.13

2.4 The Importance of Public Financial Management

The flow and management of funds is the lifeblood in the system of public administration. Like other parts of public administration, the system of public financial management rests on design and reforms adopted over many years. Administrators need to understand how the system has been designed, what it is intended to do, what it is capable of doing. Public financial management is a dynamic, living, breathing system with which people interact every day. Such a system must be managed and regulated throughout its length and its customers must be billed according to some politically acceptable framework. At the Boston Tea Party in 1773, America's pioneers began to lay down the design of their country's system public financial management. At the heart of the design of the American system of public financial management are the following six principles¹⁴:

1. Democratic consent : Taxation and spending should not be done without the explicit consent of the governed.
2. Equity : Governments should be equitable or treat people in similar circumstances similarly in raising and spending taxes.
3. Transparency : What governments do in raising and spending funds should be open to public knowledge and scrutiny
4. Probity : There must be scrupulous honesty in dealing with public funds, of which legislators and administrators are the stewards, not the owners
5. Prudence : These stewards should not take undue risks with public funds

¹⁴Shafritz and Russel (2005), p.17

6. Accountability :Those who deal in public funds can and should be regularly called to account for their stewardship through legislative review and audit processes.

CHAPTER 3

TREASURY SINGLE ACCOUNT IN INDONESIA

3.1 Cash Management in Indonesia

In the beginning era of independence of the nation, cash management in Indonesia was adopted with bureaucratic practices intact from the Dutch colonial period. In cash management, the system that being adopted was fund disbursement manage by State Cash Revenue and Spending Office known as *Central Kantoer voor de Comptabiliteit (CKC)*. CKC performed treasury function based on administration norms (*administratief beheer*), treasury norms (*comptabiliteit beheer*) and testing of state spending (*wetmatigheid, rechmatigheid and doelmatigheid*).¹⁵

Before 1965, CKC had a duty to issue the payment order letter known as SPM and provide the budget to fund the project or program implementation. CKC implemented the cash system in state spending and revenue by issuing the cash SPM and cheque. The process of cash provision in post office as the place to fund disbursement done by cash direct delivery. This process had the weaknesses the high cost of direct cash delivery using special vehicles with high risk of security and complicated fund disbursement transaction to the beneficiary.¹⁶

In the 1965, developments in finance and banking technology change the system to giral/cheque system implemented by State Treasurer Office known as KBN. This means that spending and revenue was being implemented by main treasury account imposition. The main treasury cash was opened in the Central Post Office operating in a particular area of payment. If the account balance is insufficient to pay the budget disbursement checks printed on strips SPM that receive by the post office, the post office will send news about the lack of fund to the KBN. The changes in disbursement of funds from the cash system to giral system required the government to simplify the role, functions and business processes conducted by

¹⁵ Direktorat Jenderal Perbendaharaan (2010), p.56

¹⁶ Ibid, p.56

CKC. Along with the advances in financial and banking technology, the giral system through the post office seemed to not to be able to accommodate the accelerated disbursement of funds to third parties using finance for the program / project, mainly due to the constraints faced by the systems that were not fully adopted. In fact, the cash transactions between the Central Post Office and KBN are still needed.¹⁷

In 1971, the state revenue and expenditure fund not only used the post office but also banking services. KBN fostered the partnering with commercial bank as KBN partners. KBN opened government treasury account at the banks that become KBN partners to accommodate state revenue. Meanwhile, in order to facilitate state spending, SPM issued by KBN charged to the treasury account along with the debit note to the imposition of the treasury account. KBN reorganized into two business units, State Treasury Office (KPN) and State Cash Office (KKN) because the role of KBN was growing rapidly through this pattern in 1975. KPN and KKN improved the services to the public by rearranging the role and functions of these institutions. Giral system that began has accelerated the process of disbursement of funds to a third party. For example, in 1989 when the banking system began to be known for giral disbursement, payroll processing could be performed by civil service employees who had opened an account at a designated bank. KPN partner bank consists of two categories, namely Single Bank (Bank Tunggal) to facilitate government spending and Perception Bank (Bank Persepsi) to accommodate state revenue.

In 1990, along with implementation of a full giral system over state revenues and expenditures, KPN and KKN became merged into the State Cash and Treasury Office (KPKN). Thus, there is no longer any cash saved by KKN. All cash is deposited in banks and post offices. Budget disbursement process through KPKN became simpler than before the giral system. On the disbursement of funds by KPKN, the state government set up accounts with Bank Indonesia as the Single Bank. After receiving and testing the Payment Request Letter (SPP) submitted by the treasurer concerned, KPKN publish SPM bank addressed to the government / other treasurer where the general treasurer to open their account.¹⁸

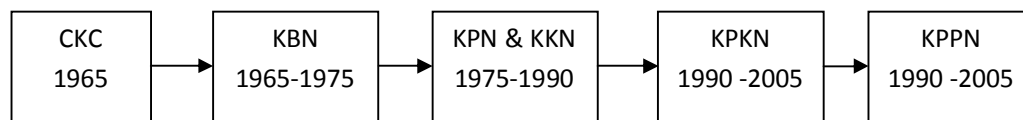
¹⁷ Ibid, p.56

¹⁸ Ibid, p.56

Along with the passing of the country's financial management reform, which is indicated with the package of three laws in the financial sector, by decree of the Minister of Finance number 303/KMK.01/2004 on Organization and Administration of the Regional Office of Directorate General of Treasury, in 2005 KPKN became the State Treasury Service Office known as KPPN.

Changes in the organizational structure is a consequence of the KPPN no longer functioning as *ordonansiering* (authorizing authority). KPPN only has the function of State Treasurer (BUN), serving as a bill payer to the State Treasury after previous testing of the source document. Treasury Act mandates the separation of powers in the implementation of the budget. Technical administration such as as Budget User administration implement administrative authority (*administratief beheer*) and the Minister of Finance as BUN carries out the maintenance comptabel (*comptabiliteit beheer*). Technical ministries as budget users are entitled to test, charge the appropriate budget lines, and order the payment of the expense of the state budget bill. Finance Minister as BUN can carry out validation assessment of the bill and make payment at the expense of the state budget bill. Figure 3.1 the development of the cash management in Indonesia

Figure 3.1 the development of the cash management in Indonesia



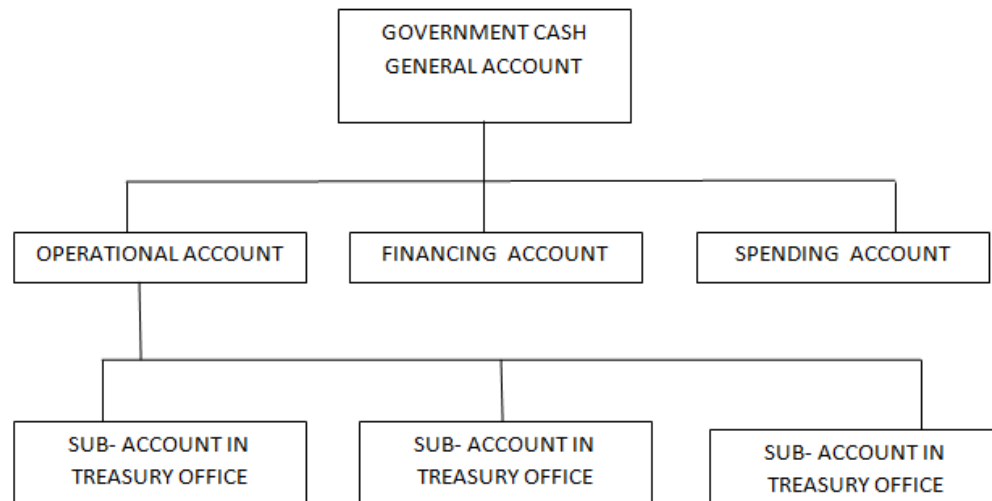
Source : Directorate General of Treasury (2010)

3.2 Treasury Single Account in Indonesia

From independence until the beginning of the new order era, cash management practices in Indonesia have not done well, as often happened in developing countries. At that time, cash management still was part of the spending budget, and not considered in issues such as fund disbursement, the number of bank account held by the government in managing the cash, payment based on checks and cash, the amount of the floating cash, and the idle cash that did not earn any interest from the bank that held the cash. The main problem of cash management in Indonesia

was that there are too many storage areas and cash has been kept as idle cash. Also, the time interval or time gap when the cash was transferred to treasury account was too long. That's why government in Indonesia decided to implement the treasury single account in Indonesia. In Treasury Single Account Implementation, if a cash shortage happened, the Treasurer did the dilution of bank placement in public bank or Bank Indonesia, and sold the government securities owned and conducted repurchase agreement (repo.) On the other hand, if there was an excess of the cash, the Treasurer put the money on account at the central bank or commercial bank that can generate interest with the level of interest applicable and can purchase Debt Securities State (reverse repo). The implementation of Treasury Single Account in Indonesia is seen in figure 3.2

Figure 3.2 Treasury Single Account in Indonesia



Source : Directorate General of Treasury

There are about 178 Treasury Offices in Indonesia¹⁹, most of which are not located in the same city as the Bank of Indonesia office. This means that the execution of Treasury Office non Bank of Indonesia office should ask their parent treasury

¹⁹See <http://www.perbendaharaan.go.id/new/?pilih=news&aksi=lihat&id=2323>

office to send money. When they receive request the parent treasury office issues the bank draft to Bank Indonesia to transfer money into Bank Operations I, which are located in the same city as Treasury Office. There are many constraints associated with the process because it is quite complicated. The problem also can stem from technology such as electricity shortage, broken fax machine and operating time of Bank Indonesia is not the same as Treasury Office. Another problem which also happens is the loading of banking services from banking partner in relation to implementation of transaction.

In order to control the money, Indonesian government is planning to implement Treasury Single Account (TSA) as an attempt to overcome the vulnerability of illegal accounts and facilitate monitoring of the state's money as well as to be able to use state money more productively. The main purpose of Treasury Single Account (TSA) is to create money management efficiency with a centralized mechanism of cash balances in one account.

Reform of the bureaucracy in all lines has been started in conjunction with the order of reforms in 1997.²⁰ It is becoming apparent that the involvement of professionals in managing state finances bring fresh air by applying business principles in managing state cash. Business principles that have tried to be implemented by professionals are the importance of planning and operating based on value for money.

Many countries have forgotten that money has a time value. Normally the longer the money is saved the more it will depreciate or decrease in purchasing power. Thus money management requires careful planning. So far in the financial management of the money the state has not considered unemployed funds known as idle cash and the deadline for the money that can be controlled by government known as float cash.

Reforms in public finance management have been initiated by the Ministry of Finance with the release of three laws related to public finance, namely:

- 1) Law No. 17 of 2003 on State Finance.
- 2) Law No. 1 of 2004 on the Treasury.

²⁰http://www.kemenkumham.go.id/attachments/article/175/perpres81_2010.pdf

3) Law No. 15 of 2004 concerning Control and Financial Responsibility of the State.

The package of State Finance Laws is very significant in terms of cash management rules to replace the financial management products in the Colonial era. With a package of legislation which make the pattern of relationships between institutions in the management of state finances become clear, governance, accountability and financial administration of the country also became clear. Institutions also became independent examiners who were given the task of examining State finances that have been defined clearly. The finance laws of the country serve a vital role as long as there is no role of the Finance Minister as State Treasurer (Law No. 17, Article 7).

The President as the head of the country's financial authorities has delegated his power to the Minister of Finance as State Treasurer. Thus Minister of Finance has a role as a CFO (Chief Financial Officer) with consequences that as CFO and State Treasurer, the Minister of Finance has a duty to manage the state's money for the benefit of state public service. In such obligations Minister of Finance is authorized to receive, issue, store and manage the country's finances.

Nowadays, the state cash is being stored in Bank Indonesia and commercial banks. For the purposes of day-to-day operations such oil and gas revenues there on State General Treasurer account, but quite a lot of bank account number so it is quite difficult to monitor. The money the government is storing at Commercial Bank, among others, is to provide funding for government spending and spread throughout Indonesia in accordance with the State Treasury Office location as a place to pay for state spending.

Idle cash balance indirectly increases the borrowing needs of the government. Idle cash balance also enables the Government to borrow or pay interest to finance the expenditures for some budget users, whereas in reality there is no cash balance unused (excess money) on account of other budget users. It makes government cash management responsibilities become less effective and efficient. It produces problems at individual Treasury Offices, but the amount of Treasury Office throughout Indonesia is 178, so the amount of idle money can be imagined.

On the revenue side there is also a deposition by perception banks. Mechanism for the implementation of state revenue may be described simply as follows:

1. The individual or legal entity is obliged to deposit Cash for the state Revenue in the Perception Bank that has been set by the Government.
2. Perception banks accept deposits and make the recapitulation report being submit to the Treasury Office of state revenue on a daily basis.
3. Perception bank will make the transfer to the State Treasury Account located at Bank Indonesia (two) times in a week on every Tuesday and Friday.

The mechanism shows that the state's money from state revenue is not every day transferred into the account in Bank Indonesia but settles first in the Perception Bank. Revenue received by the Bank on Monday will be transferred on Tuesday so that settles 1 day, while the receipts received by the bank from the perception bank on Wednesday and Thursday are deposited into the account on Friday to settle for 2 days. Government do not enjoy the results of the money except in the form of current accounts in the commercial bank, while the commercial bank funds can be used for a overnight loan, but the interest rate is very high.

Important background why government implement treasury single account is that for the cash management, the cash is spread in many accounts. So, when the cash is collected, the cash becomes idle money and there is a time gap when the cash in many accounts is transferred to treasury account. These problem make Ministry of Finance difficult to control the cash. In the business world, the cash can being employed to get interest. Indeed, one finance management principle is that cash is a king, not profit

Results of examination of Government Financial Report (LKPP) in the year 2006 by Finance Audit Board (BPK) showed that there are thousands of accounts called wild accounts in the sense that they hold money either for government spending or revenue of ministries or government institutions but unreported to Ministry of Finance. Thus, these accounts are not included in the government's financial statements. BPK found 2141 government accounts not being reported with the value of 2.56 trillion rupiah (Tempo Interaktif, 2007). The Chairman of BPK stressed that government should prioritize the control of the accounts that were unreported. This happened because government has not implemented the Treasury Single Account in cash management (Tempo Interaktif, 2007)

The Ministry controlled those accounts by issuing the policy to control the government account :

1. PMK Nomor 57/PMK.05/2007 about managing accounts owned by government institutions
2. PMK Nomor 58/PMK.05/2007 about controlling accounts owned by government institutions

3. PMK Nomor 67/PMK.05/2007 about the sanctions related with managing and controlling the account owned by government
4. Ministry of Finance tried to manage that -wildø account by closing it and deposited the cash into BUN account with the results as reporting in the table below.

Ministry of Finance try to manage that -wildø account with closing it and deposited the cash into BUN account with the result show in Table 3.1

Table 3.1 Table of Founding -Wildø Account

No	Description	Total of Account	Total of rupiah
1	The Finance Audit Board	1,303	8,537,735,905,807
2.	Ministry of Finance Policing Team	2,169	9,122,690,550,990
	Total	3,472	17,660,426,456,797
	Account being closed and deposited to BUN account	20	5,055,462,940,252
	Success Rate (%)	0.58	28.63

Source : BPK

The Success rate was only 28,63 % but it shows the progress towards better cash management

3.2.1 Before the Implementation of Treasury Single Account

There are two kinds of grouping based on whether the location of Bank Indonesia and the location of treasury office are in the same city or not.²¹ If the location is in the same city, it is called Treasury Office KBI. If not it is called Treasury Office Non KBI. There are two kinds of different mechanisms for both groups. For KPPN KBI, there are Parent KPPN and Not Parent Treasury Office KBI.

²¹Tamba (2008), p.23

Parent KBI Treasury Office is partnering with the Treasury Office located KBI with the Treasury Office of the cities and the transfer of funds to finance budget expenditures to other Treasury Office . Non Parent Treasury Office KBI is Treasury Office in partnership with Bank Indonesia located in one town with KPPNs but not to transfer funds to finance budget expenditures at other Treasury Offices.

There are also another term used in this mechanism, that is Bank Operations (BO) that consists of BOI, BO II and III. BO I KPPNs Partners Parent and Non-Parent Bank Indonesia's city is a bank designated by the Director General of the Treasury to manage expenses burdening the State Treasury account. BO I consists of salary and non-salary, while BO II is a bank designated by the Director General of the Treasury to make payments of salaries for Civil Servants (PNS), members of the Indonesian Armed Forces (TNI) and members of the Indonesian National Police (Polri). BO III is a bank designated by the Director General of the Treasury to manage the land and building tax (PBB), Tax on Acquisition of Land and Building (BPHTB).

The other term used in cooperation with the Post Office, Integrated Giro (SGG) is the Parent Partners and Non Parent KPPNs that Bank Indonesia's city designated by the Director General of the Treasury to manage the State Treasury receipts and expenditure accounts of the State Treasury burden consisting of SGG Receipts and Expenditures. While Perception Bank is a commercial bank Partners Parent and Non-Parent KPPNs that Bank Indonesia's city designated by the Director General of the Treasury to manage / accommodate all revenues will go to the State Treasury.

3.2.1.1. Cash Flow at KPPN KBI

The mechanism of Cash Flow at KPPN KBI begins with the process of paying government employee salary. Salary Account located at BO I being filled with transfer from the account at Bank Indonesia with number of 501.000.000. The transfer must being done 7 (seven) days prior to first day of the month (date of payment of salary) with a maximum ceiling amount that already set up by the Central Office of Directorate General of Treasury.

Another spending are using the non-salary accounts, the main sources of the cash is account no. 501.000000 located in Bank Indonesia. BO I can do to transfer / shift money from the State Treasury account No.. 501.000000 issued Giro Bank Indonesia (BG-BI). The maximum balances in the account was being set up by the Central Office Directorate General of Treasury.

Salary Account at BO I disbursed to Post Office 6 (six) days prior to first work day of month (date of payment of salary). If it turns out after seven (7) lack the funds required for the payment of salary exceeds the funds available, then the deficiencies can be taken with the transfer of non-salary accounts on BO I, as well as for expenditures. Salary Account at BO II after first day of the month (after payment of salary) must has a maximum balance of 5% of the actual salary of the 1st of the month, so if there is still more than 5% should be transferred to the account of salary at the BO I. The remaining funds on account of Salary Salary BO I should be nullified and transferred to 501.000000 accounts with Bank Indonesia no later than 7 (seven) days each month. Whenever there is a balance on the account of non-salary exceeds a predetermined limit then the excess shall be transferred to the issuing Giro Bank Indonesia (BI-BG) to No.501.000.000 account at Bank Indonesia.

Each Bank and the PBB Perception and BPHTB Bank should delegate to the BO III PBB and BO III BPHTB their revenues on every Friday or the next working day if the holiday falls on Friday. While BO III BPHTB on every Wednesday or the next business day if Wednesday is a holiday must divide out BPHTB No.501.000.000 and transfer to an account at Bank Indonesia, for the central government distribution and to account that already appointed for the distribution of local government. While for BO III PBB, on every Friday or the next working day if the Friday is a holiday must divide out the PBB and transfer the proceeds into an account at Bank Indonesia No.501.000.000 for sharing central government and to account Local Cash for local government division.

Balance at Bank Perception / Perception Perception Exchange and the Post should be transferred to the account of the State Treasury Combined daily. While balance at the Joint State Treasury account must be transferred to an account at Bank Indonesia Number 501 000000 every Tuesday, Friday and the first or the next working day if the day falls on a holiday.

Joint Special State Treasury account at Giro (SG) / Integrated Giro (SGG) have delegated the beginning of each working day Tuesday, Friday, and the first or the next working day if the day falls on a holiday. While the Special Integrated Giro (SGGK) have delegated every 7, 15, 23, and the end of the month to an account at Bank Indonesia No. 501 000 000. Usually there for Provincial SG / SGG while SGGK only in KPPNs Non KBI. Figure 3.2 shows cash flow at KPPN (Treasury Office) KBI.

Source : Tamba (2008)



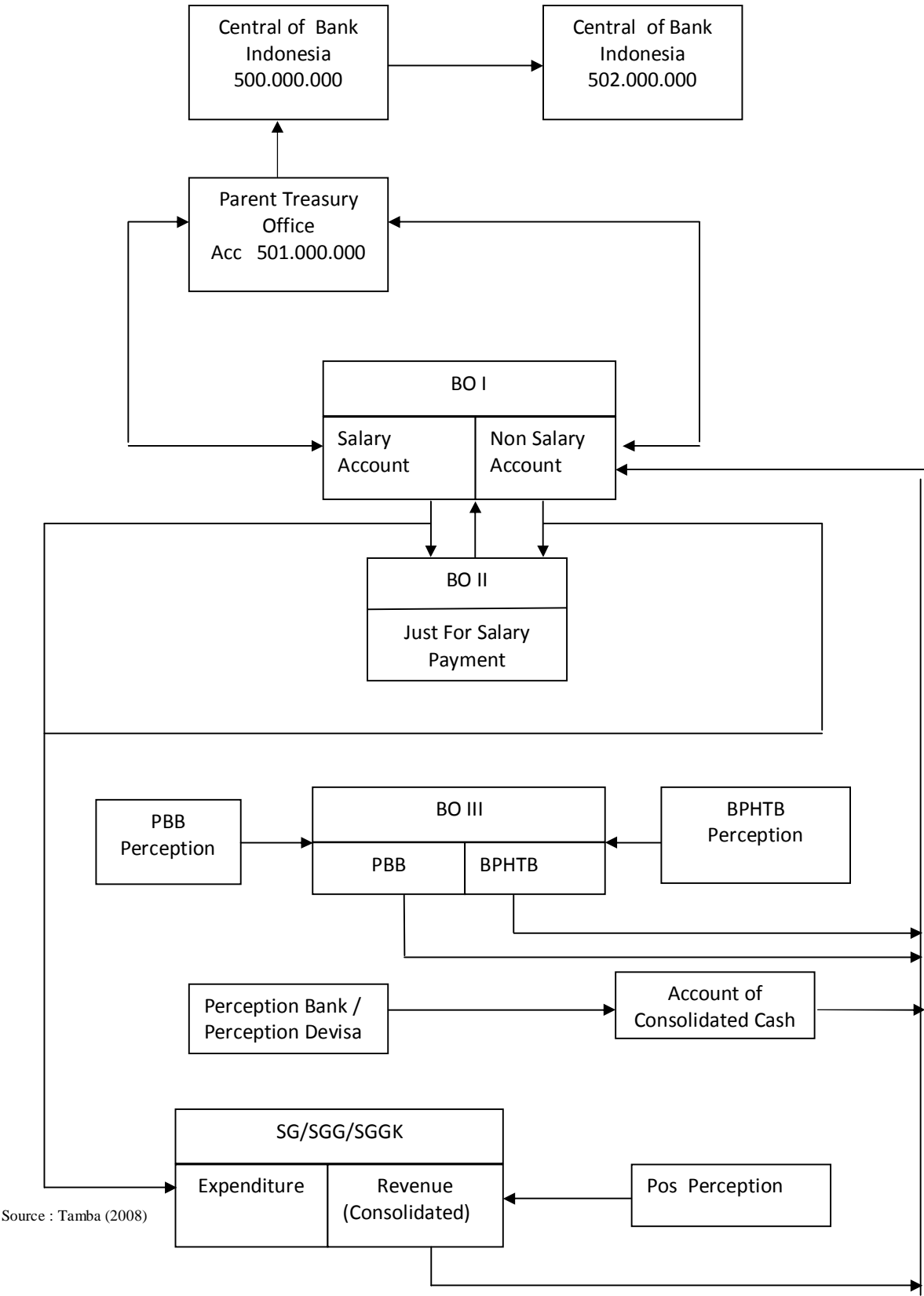
3.2.1.2 Cash Flow at KPPN (Treasury Office) Non KBI

The mechanism of cash flow in KPPN Non KBI is begin with Salary accounts to BO I filled with order Tambahan Uang Kas (TUK) /Supplementary cash Money from parent KPPN (KPPN Induk) 7 (seven) days prior before date of 1 (date of payment of salary) with a maximum amount of that has been determined by Directorate General of Treasury or base on the real need for one month

To fill the non-salary accounts on BO I with order Tambahan Uang Kas (TUK) /Supplementary cash Money from parent KPPN (KPPN Induk). Maximum of on non-salary accounts for the maximum limit set by the Directorate General of Treasury

The next mechanism is same with mechanish in KPPN KBI. The mechanism show in the figure 3.4

Figure 3.4Cash Flow at Treasury Office Non KBI



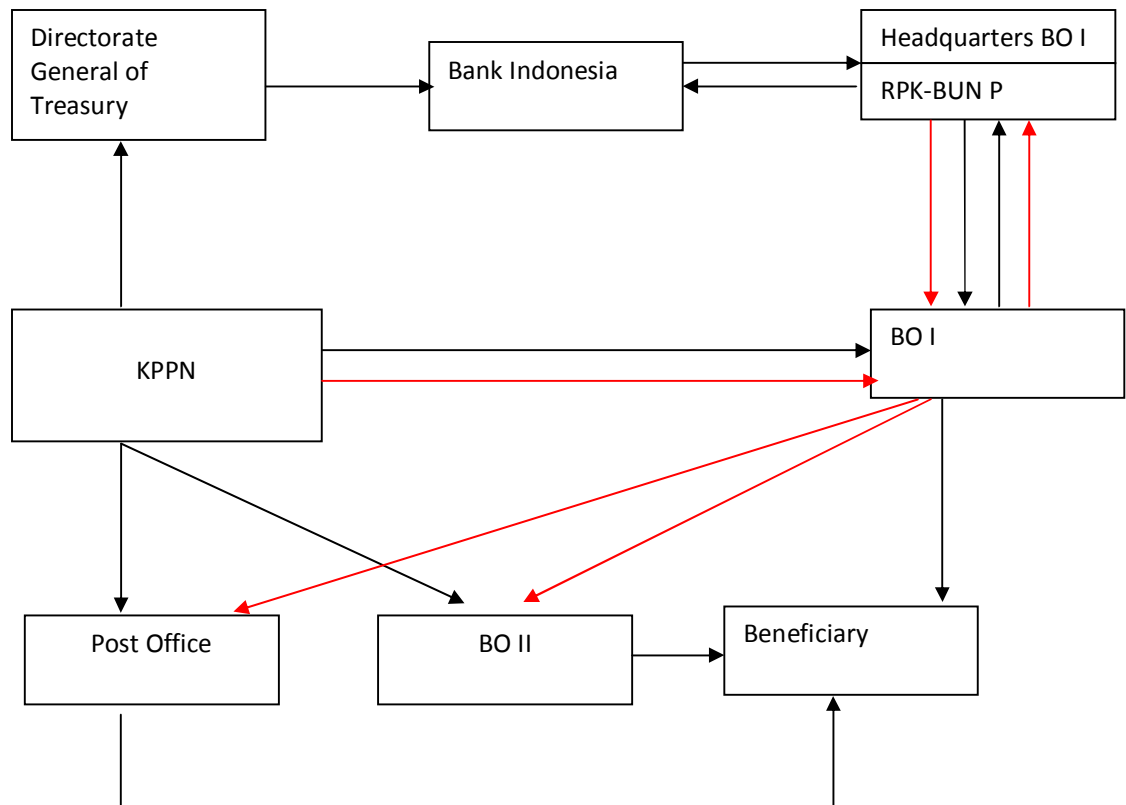
3.2.2 After the Implementation of Treasury Single Account

There are two kinds of mechanism, mechanism for spending account and for the revenue account.

3.2.2.1 Mechanism of TSA Implementation in Treasury Office for Spending

Account :

Figure 3.5 Show TSA Implementation in Treasury Office for Spending Account



Source : Tamba (2008)

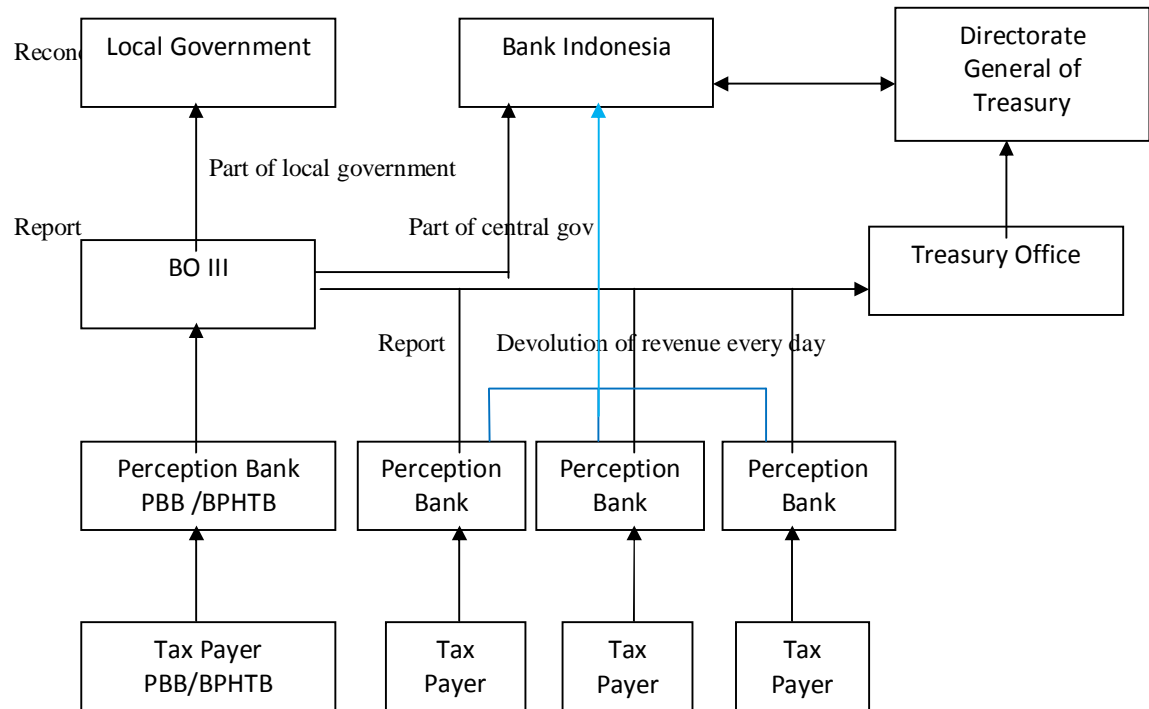
Explanation of flow chart begin with KPPN every afternoon (16:00 local time) expressed the need assessment to Directorate General of Treasury for the purposes of the next day. Submitted shall include the estimated funds to fill funding of BOI,

BOII and SGG/Pos. The next step is Directorate General of Treasury (in this case Dit.PKN) every morning (around 07.00) asked Bank Indonesia to RKUN transfer funds from commercial banks to the central office to fill out the funds in the Account Center BUN ExpenditureAuthorization(RPK-BUN-P) on head quarters of commercial banks based on the amount of Treasury Office needs all that have been submitted to the Directorate General of Treasury on previous afternoon. After that Bank Indonesia to transfer funds to the bank headoffice(RPK-BUN-P) through RTGS. While BOI withdraw funds from RPK-BUN-P in accordance with SP2D sent by the Treasury Office and request transfer to SGG/Post and BOII. Next, BOI to BOII Salary transfer to demand payment of the monthly salary amount SP2D Treasury Office issued monthly salary. BOI to transfer to the Treasury Office SGG upon request in accordance with the amount of salary SP2D published. Follow by SGG pay/transfer funds to the treasurer/partner according SP2D delivered by the Treasury Office. Then BOI pay/transfer funds to partners/treasurer in accordance with the non-salary SP2D sent. And BOII pay/transfer funds to treasurer/SP2D salary employees as submitted by the Treasury Office. At the end of each working day BOII and SGG/Post nullify the remaining funds to the BOI. BOI at the end of each working day to nullify the remaining funds RPK-BUN-P.

3.2.2.2 Mechanism of TSA Implementation in Treasury Office for Revenue Account

Account :

Figure 3.6 show mechanism of TSA Implementation in Treasury Office for Revenue Account



Source : Tamba (2008)

Tax payers pay their deposit liabilities at Perception Bank. The payment only can be done on working day. While at the end of working day, perception bank bestows all revenue on that day to Bank Indonesia. Perception Bank submit the daily revenue report to Treasury Office at the end of work days. In other hands, mechanism for land and property tax known as PBB, rather different. The Tax Payers of PBB pay their deposit liabilities at PBB Perception Bank that already being appointed. The PBB Perception Bank bestow all revenue to BO III. Then BO

III make a report about PBB revenue every day to Treasury Office. BO III split out the PBB revenue between the central government and local government. Treasury office will make a report and submit to Directorate General of Treasury.

Implementation of cash management as mandated in Law No. 1 of 2004 on State Treasury made with the issuance of Government Regulation No. 39 of 2007 Regarding the Management State / Local Funds. In government regulation No. 39 of 2007 established use a single account to manage the finances of the country / region. Governance and public finance administration system conducted by the General Treasurer. State Commercial Banks including determining as a partner for spending and the placement of the state money. Over the placement of money countries / regions in the bank. General government / local entitled to interest in accordance with the level of common interest. While internal controls established by each Ministry / Agency and the Governor / Regent / Mayor until the unit level employment. Functional supervision of the financial management of the country / region implemented by the central supervisory apparatus / area and by the Finance Audit Board. State Treasurer can open an account at the expense commercial bank or other financial institution designated as partners Authorization. The State Treasurer in the region in the implementation of expenditure in areas. Accounts referred to above is operated as an account is zero. With the establishment of accounts with a balance of nil then government spending no more funds in the bank settles operational because every day is zero and all the money back to Central Bank which in turn have an impact on interest on government administration. Besides, the Minister of Finance as the State Treasurer may managing state funds with corporate principles and not so efficient and not overloaded the unnecessary cost.

After the pilot project and the publication of the necessary law, the treasury single account being implemented since 1 October 2007. In the implementation of traffic remittances are used Real Time Gross Settlement (BI-RTGS) and System National Clearing System Bank Indonesia (SKN-BI). With this two systems is expected to process sending money in order to balance and charge balance annihilation can run smoothly.

The principle of Treasury Single Account Implementation is as follows :

1. Directorate General of Treasury open one expenditure authority accounts in the main office of Operational Bank
2. This expenditure authority account is used to hold funds that will be used by the treasury office to finance state expenditures
3. Treasury Office open one spending account to commercial bank that already being appointed as Operational Bank I
4. The appointed of Operational Bank I is follow the law being applied
5. The expenditure authority accounts and spending account must zero balance at the end of every work days.
6. The Bank Operational II account should zero after the payment of salary.
7. The Spending Account in the post office on the every work day should zero, except when the hold funds for salary payment.
8. The Operational Bank and the post office are not allowed to charge fees to every distribution funds from the state budgets

The implement of TSA already implement in every part of Indonesia, while on the beginning just use in the side of spending from the state budget. The Ministry of

Finance in implementation of Treasury Single Account in Treasury Office being implement gradually remembering the information technology infrastructure not fill the standar in every part of Indonesia.

Directorate General of Treasury will also give sanction to the Central of Operational Bank for the lateness; 3% every month is deducted from the balance that is transferred late to state account for every late day include the holiday. The Treasury Office will give sanctions to Bank Operasional I, Bank Operasional II and the post office for the tardiness of zero balance with the sanction 3% per month from balance and applied per day including holiday.

In the order to process the transparency and accountability of Treasury Single Account Implementation nationally, Ministry of Finance prepare two main point: implement a tender process to choose the operational bank and award tenders to operational bank that already give the best service

TSA has been implemented in many developed countries such as the United States, France, England, New Zaeland, Australia (OECD countries).²² TSA based on international best practices in managing the cash needs to be implemented, given the principles of TSA can improve the weaknesses that exist in the revenue and expenditure mechanisms that exist today.

To reduce the chance of problems after implementation, in carrying out the TSA still has to consider the geographical conditions in Indonesia, the existing information systems and facilities owned by the government.

²²Santoro et all (2004), p.3

TSA implementation is done in stages beginning with the implementation of TSA for an expense account. On September 1, 2006 TSA has been implemented in 50 KPPNs trials that are not in provincial capitals throughout Indonesia, except for the Treasury Office Jakarta II. The trial is intended to look at the obstacles that will be experienced particularly in the areas of the district capitals, which are relatively not as advanced as the provincial capitals. Although there are a few obstacles, the overall execution can be quite successful.

Further application of TSA to expense accounts throughout KPPNs (178 KPPNs) was conducted from October 1, 2007. This is necessary for the implementation of the open election of BOI (public tender). BOI that exist today are the result of the tender.

In the implementation of TSA for an expense account, in accordance with Law 1 of 2004, article 23 paragraph (2) and Article 24 paragraph (3) the government is obligated to pay in connection with the services provided by both the central bank and commercial banks. Based on the results of auctions that BOI has been implemented, the government need not provide compensation for services provided. In fact, auctions resulted in Bank Operations I providing additional revenues of approximately Rp. 22 billion over three years after the appointment of commercial banks as Bank Operations related I KPPNs partners.

Account receipts were already planned to be implemented before the end of the 2007 fiscal year (November-December 2007), but they could not be implemented because talks with Bank Indonesia, particularly in relation to the remuneration of state funds in Bank Indonesia, have not been resolved. Expected in 2008, the Joint

Decree of the Minister of Finance and Governor of the central bank interest rate on government money in BI can be signed so that TSA can continue to account acceptance. The government is also entitled to interest on funds deposited in commercial banks as well as the obligation to pay for services provided by commercial banks, both in revenues and state expenditure in accordance with Article 24 of Law No. 1 of 2004. In connection with the implementation of the TSA prior to receipt, accounts need to be assessed and determined with advance rates services revenues to be paid to commercial banks.

Countries have limited financial resources, therefore it is very important to have a good cash management to ensure that the government's cash management are operating effectively and efficiently so as to take advantage of optimal cash balance to generate revenue and maintain the availability of funds in the State Budget. Therefore, the application of a single account or a Treasury Single Account government (TSA) coupled with good cash planning should be implemented.

With the implementation of the TSA, it is expected that most of the government's cash balances can be consolidated into one account at the end of each working day. This will open up the possibility of the government to be able to perform better control over cash flow and prevent the possibility of abuse. In addition, the cash consolidation will allow the government to be able to manage cash well. Also, in order to improve the utilization of state revenue in the form of cash, Bank Indonesia placement or public bank can earn interest on current accounts.

To achieve perfect implementation of the TSA still many challenges are to be faced. The challenges include the limited means of communication, good planning

unclaimed cash and the need for coordination between the Ministry of Finance and Bank Indonesia.²³ Besides, the implementation of TSA in cash management requires a change in mindset of every user in the areas of budget funds to finance state expenditures. Therefore the need for training to improve the quality of human resources in the country's financial management. If all of these challenges can be overcome it is expected that the implementation of TSA in Indonesia can work well.

3.3 Comparison between before and after the implementation of Treasury Single Account.

Good government, cash management matters. It matters not only from the fiscal and budgetary perspective of cost effectiveness and efficiency but also because of the benefit it can bring to other financial policy.²⁴ So, it necessary to compare the condition before and after.

Before the implementation of Treasury Single account implementation, Bank Persepsi was appointed by the Minister of Finance and not given fee for service revenue. The State Revenue at Bank Persepsi was transferred every Tuesday, Friday, and the end of the month to BI, so there is idle money on the other days in Bank Persepsi. After the implementation of Treasury Single Account, Bank Persepsi was appointed by the Minister of Finance and rewarded by the state revenue service agreement / contract. State Revenue at Bank Perception should be transferred every day to RKUN in BI so there is no idle cash in the bank accounts. For Bank Persepsi PBB/BPHTB, in the mechanism before the implementation of PBB Tax revenue was transferred to BO III every Friday. BO III divided the PBB tax to central government

²³Tamba (2008),p.56

²⁴Williams (2010), p.24

and local government every Friday (the following week) and BPHTB transferred to BO III every Friday. After the implementation of TSA, all revenue of PBB and BPHTH should be transferred and divided every day.

For the Cash Balance at BO, before the implementation, the cash balance at BO was already determined to pay salary and non salary, BO II being filled with the cash 6 (six) days before payment day. Every day BO I and II have a balance of payments for inventory expenditures. Meanwhile, balance at BO I every day must be zero, while for BO II (this time) after payment of salaries should be the same (zero balance). There is no limit to the determination of BO I. BO I funds are provided based on the needs of the Treasury Office. For BO II, this time, funds for payment of salaries must be deposited 3 (three) calendar days before the date of payment of salaries.

Other parts of BO, BO I, BO II and BO III do not receive fees from the government. To become Bank Operasional they must go through a selection process and be directly appointed by the Director General of Treasury. As Bank Operational, there are 3 types BO I that accommodate funds for Salary and Non Salary, BO II that accommodate funds for salary (monthly salary and shortage salary payment) and BO III that accommodate PBB and BPHTB. For the after, the rewarded state services expenditures as determined by the results of an open auction. Selection of BO as a partner of Treasury Office, conducted the bidding BO. Based duties / functions BO consists of 3 types, namely: BO I accomodating Non Salary (including for shortage salary payment), BO II accomodating funds for salary and BO III accomodating PBB and BPHTB.

For the KPPN, before the implementation, relating to the provision of funds for the distribution of state funds, Treasury Office distinguished as KPPN KBI (parent), KPPN KBI (non-parent) and KPPN non KBI in principle, the Treasury Office provides its own funds. KPPN non KBI provides funds through the Treasury Office (parent.). However, after implementation there is no classification anymore. State funds are distributed through the central office. Funds are provided to the Spending Accounts State Treasurer Power Center (RPK-BUN-P) at the BO Headquarters I. Provision of funds for BO I KPPNs partners by their respective BO I to withdraw funds from the RPK-BUN-P.

The implementation cash management in Indonesia has problem such in human resources, information technology and Indonesia Geographic condition. In human resources, in Directorate General of Treasury as a part of Ministry of Finance, usually hired employee from State Accountancy High School (STAN) which base of education specialized in Accounting. With background of accounting, many employee still have lack knowledge of information technology, where in cash management, information technology is needed. Information technology need human resources that can adaptable with the latest technology. In information technology, government should employ the latest technology for transferring data and funds. To make transferring data and funds from Directorate General of Treasury to KPPN and Bank and vice versa, the latest technology is needed, because the accurate time is needed, and it's late, it can get punishment for the bank. In other part, in geographic condition, Indonesia is consist of many island and separated by many seas, the connection between one places and another places is cannot run smoothly. Partners not always located in big city and sometimes the access to Treasury Office is not easy and take long time so make it difficult to submit a physical report, so submitting reports using internet should be considered.

The implementation of the Treasury Single Account involves many entities, such as Directorate General of Treasury, Bank Indonesia, Commercial Bank and Post Office. erent perspectives about the important of cash management. Partners,

sometimes have difficulties in implementing the Treasury Single Account, so the communication with the stake holder is very important. So coordination is very necessary and socialization about the importance of Treasury Single Account should be frequently held to minimize the misscommunication between those entities.

TSA has already been implemented in every part of Indonesia, while in the beginning, it was just used from the side of spending from the state budget. The Ministry of Finance in implementation of Treasury Single Account in Treasury Office is being implemented gradually remembering the information technology infrastructure is not up to standar in every part of Indonesia. So, it is necessary to build information systems that are integrated.

To achieve perfect implementation of the TSA, still many challenges are to be faced. The challenges include the limited means of communication, good planning for unclaimed cash and the need for coordination between the Ministry of Finance and Bank Indonesia. Besides, the implementation of TSA in cash management requires a change in mindset of every user in the area of budget funds to finance state expenditures. Therefore the need for training to improve the quality of human resources in the country's financial management. If all of these challenges can be overcome it is expected that the implementation of TSA in Indonesia can work well.

CHAPTER 4

TREASURY SINGLE ACCOUNT IMPLEMENTATION IN OTHER COUNTRIES

4.1 France

France already developed Treasury Single Account (TSA) at the central bank (Banque de France). The TSA includes the balances of central government revenue and spending department as well as local authorities, municipalities and quasi-governmental bodies. Social security funds are managed by public accountants, and are not held in the TSA but in a state-owned savings bank.²⁵

Agence France Tresor (AFT), an agency of the French Treasury, part of Ministry of Economy, Finance and Industry, actively manages the TSA, and has developed a cash flow forecasting capability accordingly. It invests (and if necessary borrows) surplus funds in the money markets, with a view of maintaining a low and stable end of a day balance in the TSA, ensuring the best return from surplus of investment. AFT maintains centralized payment system by make expenditure commitments and forwarding payment request to one of the nearly 4500 regional treasuries. The payments are made from the regional sub account of TSA. Closing balances in the sub-accounts are swept into the TSA in real time. Commercial Bank accounts are not being used by the French government.

The coverage of the French Treasury is very broad. It extended beyond the general government and also covered public entities such as state-owned enterprises

²⁵Patanayak (2010),P.34

(SOEs). It also receives the deposits from the public. Government cash management in France refers to the management by AFT of all cash flows that are brought to account in TSA at the Banque de France. All central government cash flows (including investment flows) and financing transactions are included with very marginal exceptions. It also includes the cash flow of Treasury correspondent including the regional and local government, public establishment and businesses, with legislative obligations, which for convenience still keep an account with the TSA. The movements in the accounts of treasury correspondents do not directly concern the central government from a control perspective, though they do have a direct impact of the TSA, and therefore AFT's cash management is affected.

In development, they stop receiving the deposits from public and also remove the SOEs and Postal Department. Currently, apart from the government flows, only major extra-budgetary funds like social security are managed by Tresor, while social security funds are not held in TSA, but rather in the Caisse des Dépôts et Consignations, a state-owned savings bank. However, the scope of the TSA remains very broad to avoid shrinkage as a part of the structural commitment to optimize government debt.²⁶

4.1.1. Lessons for Indonesia from France

From France, the development of Treasury Single Account there shows that they stopped receiving the deposits from the public and only major extra-budgetary funds like social security are being managed. Indonesia can learn that using deposits received from the public is not necessary but social security fund can be

²⁶Faibom (2011), p.7

considered. At this time, the social security funds in Indonesia are managed by government state owned enterprises such as PT Askes and PT Taspen.²⁷ In other hand, the capability of France of not using commercial banks, can be valuable lesson for Indonesia because France can get request until 4500 regional treasuries. Payment are made from the regional sub-accounts are swept into the TSA in real time. The use of commercial bank in Indonesia need more effort in ordering to pay the fee to commercial bank, and also coordination with many commercial bank is not an easy task, where those bank located separated in all part of Indonesia. As Indonesia not have good communication and still not implemented the latest technology, so the communication with those bank cannot run smoothly. In other hand, the Directorate General of Treasury can not run the Treasury Single Account with out help from commercial bank, because the commercial bank have more branch in all part of Indonesia compare than The Treasury Office.

4.2 United Kingdom

In the United Kingdom, the central bank maintains the TSA and all central government cash balances are aggregated into TSA. The system does not cover the extra-budgetary funds, and the local authorities are also outside the central system and maintain their cash balances in the commercial banking system. The two main central government funds are Consolidated Fund (CF) and the National Loans Fund (NLF). If the CF has a surplus this is automatically transferred to the NLF to reduce its need to borrow. NLF borrows the money formally for the government and funds lending to local authorities. UK Debt Management Office (DMO) managed the Debt

²⁷ See <http://finance.detik.com/read/2011/06/13/065814/1658639/5/jamsostek-taspen-asabri-askes-bakal-dilebur>

Management Account (DMA), to balance any daily surplus or deficit in NLF. The CF receives the proceeds of general taxes and other receipts. It covers payments for departments and agencies to meet their spending commitments.²⁸

The Government Banking Services (GBS) are managed Department bank accounts. The GBS replaced the former office of the paymaster general, although its functions are broadly similar. However most of the functions of the GBS are contracted out to a 'service integrator'.²⁹ The agencies put out contracts for handling cash and transaction banking services to commercial banks, and the balances in the respective accounts are swept overnight into the TSA. Not only that, GBS also directly manages some contracts with banks on behalf of some of the largest government users of the banking system.

GBS has a single main account at the Bank of England and provides payment facilities for most central government departments and related bodies. In order to meet spending commitments, cash is transferred from the CF to the respective GBS sub-account, under control of the respective spending unit, and that unit controls all disbursements. GBS accounts are temporary resting places for money drawn from or coming to the CF. The transfers between the GBS and consolidated fund, and between the consolidated fund, NLF and DMA, are internal to government. The linkage between the government accounts (known as the 'Exchequer Pyramid') means that all balances held at the Bank of England are swept into a single account.³⁰

The United Kingdom has similar capital charge arrangements. Expenditure planning and control arrangements serve to penalize budget users that draw cash in advance of actual needs. Budget users are, in effect, charged for their notional of

²⁸ Pattanayak (2010), p.35

²⁹ Mu (2006), p.28

³⁰ Pattanayak (2010), p.30

capital. A budget user's agreed expenditure provision is defined in accrual terms and will include an allowance for capital charges, but any unplanned increase in budget user's working or physical capital will add to the charges, potentially leading to a reduction in the budget user's expenditure on other good and services.

4.2.1 Lessons for Indonesia from United Kingdom

There are separate accounts for Consolidated Fund (CF) and National Loans Fund (NLF). This separation of accounts can be considered in the future in Indonesia. It shows that separation can make government more focused by using both funds. United Kingdom is fully centralized in implementing Treasury Single Account, Indonesia can learn from this, to know is it suitable if being implemented in Indonesia. To implement the centralized system in Indonesia is not an easy task, because of the geographic condition in Indonesia, and also because Indonesia already implement the decentralize system to give more opportunity to all local government to get more independence in manage their cash management. So, it take time to implement the centralized system need more research. It need extra money to study the benefit of centralized system and what Indonesia will need to implement the centralized system, and what what benefit , the strength and the weakness of this system to Indonesia.

4.3Australia

In Australia, the Department of Finance and Administration (DFA) is responsible for banking and payment arrangements within government. The DFA

holds the main government bank accounts at the Reserve Bank of Australia (RBA).³¹ The main account at the RBA is the Official Public Account (OP), which provides spending for all spending accounts of departments. Funding is provided to the department one day in advance based on the cash flow projections of expenditure received from the departments. The balances of departmental and agency expenditure accounts are swept overnight into the OPA, but returned the next day. There is also an Official Consolidated Receipts account where all government receipts are consolidated overnight. Departmental payments are to some extent executed through the commercial banking system. Under the devolved banking arrangements all department are required to contract banking services, and they can choose to do this with commercial banks or rely on the RBA.³²

4.3.1 Lessons for Indonesia from Australia

In providing cash, cash planning is important part in Australia. Indonesia must considered this as an important point in cash management. Cash planning is not only a job that done by ministry of Finance but also by other institutions in Indonesia. So, the Ministry of Finance must disseminate the importance about the importance of cash planning to other institutions in Indonesia. In addition, the responsibility of banking arrangements, all departments are required to contract with commercial banks, while in Indonesia the situation is different because only Ministry of Finance that have agreement with commercial banks. The condition in Australia and Indonesia different, it's still need more effort in coordination with other institution, because the capability of other institution in manage the cash

³¹Lienert (2006),p.7

³²Pattanayak (2010), p.36

management is still need to upgrade, and need transfer knowledge from Ministry of Finance. In some case, other institutions get more budget than Ministry of Finance, so the capability of other institutions to manage their cash management is needed, because after the cash have been being transfer to other institutions, it's become the responsibility of them .

4.4 United States

In a single account, the US Treasury developed consolidated fund pools for all funds of the federal government. The main actor of government banks is the Federal Reserve Bank (FRBs). Especially the Federal Reserve Bank of New York (FRBNY) maintains the Treasury General Account, accepts the deposit of federal taxes and other federal agency receipts, and processes checks and electronic payments drawn on the TGA. The Treasury holds all funds, with very few exceptions, under the management of its fiscal agent, the FRBNY.³³ FRB administers actual disbursements through intermediation reflected in TGA in real time. While all treasury disbursements are made from TGA, the network of several thousand financial institutions collects the major part of all tax revenues. Under the single account, each agency and bureau is given accounting and control responsibility for the timing and use of its funds. However, the agency/bureau does not actually hold those funds in separate bank accounts outside the treasury. The treasury operations cover a complete range of public funds, trust funds, revolving funds and other funds.

³³Garbade (2004),p.7

State and local governments have full independence in managing their own funds and they make use of depository institutions outside in the central bank system.³⁴

4.4.1 Lessons for Indonesia from United States

From The United States Indonesia can learn that each agency and bureau is given accounting and control responsibility for the timing and use of its funds. It means that each agency and bureau does not depend on the treasurer, and that they can get the cash directly from the central bank, while in Indonesia the institutions are being coordinated by the ministry of finance as treasurer in use of the fund. Actually, what being implemented is good, because each agency can manage their own cash and not depend on Ministry of Finance. In accordance to manage this system, need extra task, like evaluate the existing regulation, what benefit can Indonesia get from implemented this kind of system, and it also need to evaluate the readiness of the institutions to implement this kind of system, because, it not only will be work for Ministry of Finance but also other institutions.

4.5 Sweden

Authority payments (including the Swedish Social Insurance Administration) are collected in a central account (SCR) that the debt office holds at the central bank. Cash flows are netted there and depending on whether there is surplus or deficit in the account, deposits are made or funds provided centrally by the DO in order to make the final balance every day. Every authority has one or more transaction

³⁴Pattanayak (2010),p.36

accounts at one or more banks.³⁵ The balances in the authorities transactions are transferred and collected in a top account in the respective bank and then forwarded onward to the SCR. This takes place three times a day. The authorities accounts at the DO are interest-bearing. The DO procures payment services by framework agreements with the banks. The agreement regulates various types of payment services for which the authorities sign sub-agreements with the banks based on the framework agreement. Each public authority must pay for the banking services it uses, used so the authorities can pick their own bank to provide specific services. The DO finances its temporary cash needs by borrowing on the interbank market.³⁶

4.5.1 Lessons for Indonesia from Sweden

In Sweden, the balances of the authorities' transactions are transferred to the central account in the central bank three times a day, while in Indonesia the transfer is only once a day. Three times can be a consideration in future in order to maximize the amount of cash that will be available. Each public authority must pay for the banking services it uses, used so the authorities can pick their own bank to provide specific services. It means that every public authority has responsibility with what they already choose. Just like Treasury Single Account that being implemented in other country, it's not only the responsibility of Ministry of Finance. It is need to be analyzed and evaluate which one being effective and efficient, one time or three times, because change the way of system can give impact in another part not only for Ministry of Finance but also for other institutions.

³⁵Lienart (2006), p.4

³⁶Pattanayak (2010), p.37

4.6 New Zealand

The Central Bank, the Reserve Bank of New Zealand (RBNZ), is where the government holds its main bank accounts.³⁷ This account, known as the Crown Settlement Account (CSA), effectively operates as a TSA. All wholesale financial market flows between government departments and the private sector as well as between government and the RBNZ, pass through this account directly. All retail flows between government departments and the private sector pass through a commercial bank and the CSA. Transactions for government entities other than departments (e.g. crown entities, state-owned enterprises) are transacted outside of the CSA. The RBNZ operates a system which provides real-time, final, irrevocable payments between account holders. Transactions by government departments create cash flows between the CSA and the other settlement accounts maintained by the commercial banks.³⁸

4.6.1 Lessons for Indonesia from New Zealand

The treasury single account in New Zealand also includes financial market flows between government departments and the private sector. It can be a consideration in the future for the use of financial markets as part of Treasury Single Account. Indonesia can learn from Real time system that New Zealand already applied, because this system can provide faster system. Actually, it is rather difficult to implement this system because Ministry of Finance is not part of Financial Market in Indonesia. To implement this system, it will give more risk to the Ministry of Finance. In other hand, the real system is not easy to be implemented because as

³⁷ Garbade (2004), p.4

³⁸ Pattanayak (2010), p.37

we know, the implementation of Treasury Single Account is not a job of Directorate General of Treasury but also other entities and institutions.

4.7 Brazil

The Central Bank (BACEN) is the location of TSA and its management is assigned to the National Treasury Secretariate (STN) of the Ministry of Finance which also has to prepare the cash plan, administer the public debt, produce the federal accounts and manage the financial information system (SIAFI). The TSA only covers the federal government entities (each state has its own TSA). It also includes the transactions of social security fund (INSS) and special accounts in foreign currencies (including external loans). The collection of revenues and payment transactions are handled through the largest public commercial bank (Banco de Brasil, BB) and only in exceptional cases some other commercial banks authorized by the STN are used.³⁹

In May 2002, the Central Bank started using T-bills as a monetary policy instrument. When the outstanding C-bills expired, the treasury issued an equivalent amount of T-bills. The proceeds of the issuing of additional T-bills are deposited in a special account. These process cannot be used for budget expenditure, but can be used to pay off foreign debts.⁴⁰

4.7.1 Lessons for Indonesia from Brazil

In Brazil, not many commercial banks are included in Treasury Single Account, but only the largest public commercial bank (Banco de Brasil, BB) and if

³⁹Pattanayak (2010), p.38

⁴⁰Mu(2006),p.18

there are exceptional cases, other commercial banks authorized by National Treasury Secretariate are used, while in Indonesia uses many commercial banks. The used of few commercial banks can make the duty more simple and monitoring commercial banks easier. Indonesia can learn from Brazil about using fewer commercial banks. Another point is that the Central Bank in Brasil not only is used as the place of Treasury Single Account but also prepares the cash plan, administers the public debt, produce the federal accounts and manages the financial information system. In the future, this kind function of Bank Central can be considered and can being conducted. This also shows that the financial information system also considered an important element in Treasury Single Account. In Indonesia, the information system may also be considered. With a good information system, it can provide the useful information for making decisions to provide cash when needed.

4.8 Georgia

An examination of the cash management situation in Georgia highlights the drawbacks of a multiple treasury account structure. Georgia's treasury used to hold as many as 1,700 accounts with the central bank and commercial banks for various revenues and expenditures. The total average balance stood at about GEL 30 million to GEL 40 million, or about 6 % of total government budget revenues. Furthermore, these accounts generated no interest and had few linkages with each other for achieving the daily netting of the overall position. To meet cash and budgetary needs, the Ministry of Finance issued about GEL3 million to GEL7 million in T-bills each week at an average interest rate of 40 to 50 percent, which was much higher than the

rate for bank deposits quoted in the money market.⁴¹ Treasury Service of Georgia do not issue cash checks. According to the new regulations, public employees keep personal checking account in commercial banks, to which wages, travel expenses or petty cash are transferred.⁴²

4.8.1 Lessons for Indonesia from Georgia

From Georgia, Indonesia can learn that government can be independent and not depend on Central Bank. The Central Bank in Georgia does not provide interest for all the cash the government puts in to it. They used T-bills to meet the cash and budgetary needs. In Indonesia, T-bills can be an alternative to meet cash and budgetary needs just like in Georgia. In implementing this system, it need to being analyzed and evaluate because The Central Bank of Indonesia, is the place of governement save the money, so it is difficult not to depend to Bank of Indonesia. Bank of Indonesia also already give interest to Directorate General of Treasury. The using of T-bills in Georgia need to being study, to know strength and the weakness and what benefit will be given to Indonesia.

4.9. Serbia

In Serbia, the system consists of a consolidated account used for the country's budget, together with separate consolidated treasury accounts for other public entities, such as schools, hospitals and local authorities and also for the Social Insurance Fund and other public bodies and funds. It is held at the National Bank of Serbia. There is no single consolidated treasury account for all public bodies and funds, held at the

⁴¹Mu,(2006), p16

⁴²Babilodze (2008),p.1

national bank of Serbia. Apparently, however, the net amounts remaining in the different consolidated accounts are treated in effect as one setoff account for interest purposes and the like. Some of the proceeds are invested in commercial banks, but the bulk of the funds is invested in the National Bank of Serbia. The government is prevented from placing deposits with commercial banks because of opposition from the National Bank of Serbia. As of December 31, 2004, the aggregate of the net balances in the different consolidated accounts was SRD39.6 billion. But by March 15, 2005, the amount had increased to SRD49.6 billion, which was greatly in excess of the government's 2005 borrowing requirements. Idle balances amounted to SRD2.73 billion as of December 31, 2004, increasing to SRD4.5 billion by March 15, 2005. Again, this amount was greater than net T-bill funding during 2004, at an average discount rate of around 20 percent. While T-bill costs have fallen recently to around 15 percent, this cost is greatly in excess of the rate of return of 2.55 percent a year earned on deposits at the National Bank of Serbia, which is a compelling reason for the Ministry of Finance to pursue more efficient liquidity management.⁴³

The system for public expenditure management in Serbia has not changed much since last year's assessment. A new financial management information system has been introduced, which has improved the work in the phase of budget execution and reporting, but more substantial changes to the system have been postponed. A year ago there was a plan to amend the Budget System Law, but the unexpected parliamentary elections and the formation of the new coalition government interrupted the process.⁴⁴

⁴³ Pattanayak (2010), p16

⁴⁴ Sigma (2009), p.2

4.9.1 Lessons for Indonesia from Serbia

Serbia, to protect the government cash, prohibited to saving money in commercial banks, even for institutions and other public entities such as schools, hospitals, local authorities and public bodies , which must use the National Bank of Serbia. In the future, Indonesia can consider putting all money in Bank Indonesia, so the transfer between the accounts can faster. But it is difficult to being implement because the institutions and other public bodies cannot open accounts in Bank Indonesia. But, it still need more researcch, what benefit will be given, if another institutions can open the account in Bank of Indonesia. But in regulation that being used today, it being refused for other instituions to open account in Bank of Indonesia.

CHAPTER 5

CONCLUSION AND POLICY RECOMMENDATION

5.1 Conclusion :

The implementation of the cash management in Indonesia is not referring entirely to the principles of good cash management. The implementation of Treasury Single Account is one way Indonesia has chosen to achieve better cash management. In the future hopefully cash management can be implemented properly. However, it is not easy to implement the Treasury Single Account because of the large number of entities involved including Directorate General of Treasury, Bank Indonesia, Commercial Bank and Post Office.

Implementation of cash management was mandated in Law No. 1 of 2004 on State Treasury made with the issuance of Government Regulation No. 39 of 2007 Regarding the Management of State / Local Funds. Government regulation No. 39 of 2007 established use a single account to manage the finances of the country / region. Governance and public finance administration system conducted by the General Treasurer. State Commercial Banks have been appointed as a partner for spending and the placement of the state money.

Countries have limited financial resources, therefore it is very important to have good cash management to ensure that the government's cash management is operating effectively and efficiently so as to take advantage of optimal cash balance to generate revenue and maintain the availability of funds in the State Budget .

Therefore, the application of a single account or a Treasury Single Account (TSA) coupled with good cash planning should be implemented.

With the implementation of the TSA, most of the government's cash balances can be consolidated into one account at the end of each working day. This will open up the possibility of the government to be able to perform better control over cash flow and prevent the possibility of abuse. In addition, the cash consolidation will allow the government to be able to manage cash well. In addition, in order to improve the utilization of state revenue, the cash can be made at Bank Indonesia or public banks and can earn interest on current accounts.

The difference between before and after the implementation of TSA is the grouping of the mechanism of its process. Before, the grouping is based on the location of KPPN/Treasury Office with Bank Indonesia or not, while for other the grouping based on spending or revenue.

In the order to improve transparency and accountability of Treasury Single Account Implementation, Ministry of Finance must choose the operational bank through the tender process, awarding the tender to an operational bank that already gives the best service.

To achieve perfect implementation of the TSA still many challenges are to be faced. The challenges include the limited means of communication, good planning unclaimed cash and the need for coordination between the Ministry of Finance and Bank Indonesia.⁴⁵ Besides, the implementation of TSA in cash management requires a change in mindset of every user in the areas of budget funds to finance state expenditures. Therefore the need for training to improve the quality of human

⁴⁵Tamba (2008),p.56

resources in the country's financial management. If all of these challenges can be overcome it is expected that the implementation of TSA in Indonesia can work well.

From other countries such as France, United Kingdom, United States, Australia, Sweden, Georgia and Serbia, Indonesia can learn many things such as the used of commercial banks, the use of T-bills, the importance of information systems, and the participation of security funds in cash management.

5.2 Policy Recommendation :

Based on the research conclusions, there are several suggestions related to improving the implementation of Treasury Single Account in Indonesia. First, the implementation cash management in Indonesia has problem such in human resources, information technology and Indonesia Geographic condition. In human resources, the government should give more training. In information technology, government should employ the latest technology for transferring data and funds. Partners not always located in big city and sometimes the access to Treasury Office make it difficult to submit a physical report, so submitting reports using internet should be considered.

Second, the implementation of the Treasury Single Account involves many entities, such as Directorate General of Treasury, Bank Indonesia, Commercial Bank and Post Office. So coordination is very necessary and socialization about the importance of Treasury Single Account should be frequently held.

Third, the Treasury Single Account is already implemented in many countries, it is necessary for Indonesia to learn from their experience while it also must monitor and evaluate what already done, what still should be enhanced and always receive and evaluate suggestions from partners.

Fourth, TSA has already been implemented in every part of Indonesia, while in the beginning, it was just used from the side of spending from the state budget. The

Ministry of Finance in implementation of Treasury Single Account in Treasury Office is being implemented gradually remembering the information technology infrastructure is not up to standar in every part of Indonesia. So, it is necessary to build information systems that are integrated.

Finally, to achieve perfect implementation of the TSA, still many challenges are to be faced. The challenges include the limited means of communication, good planning for unclaimed cash and the need for coordination between the Ministry of Finance and Bank Indonesia. Besides, the implementation of TSA in cash management requires a change in mindset of every user in the area of budget funds to finance state expenditures. Therefore the need for training to improve the quality of human resources in the country's financial management. If all of these challenges can be overcome it is expected that the implementation of TSA in Indonesia can work well.

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